

Message Text

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ACTION SS-14

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SUBJECT: SITUATION REPORT, DECEMBER 20

REF: (A) STATE 267168; (B) LONDON 20404

1. THE OPEC DECISION". THE PRESS, DRAWING ON INDUSTRY AND GOVERNMENT, SUGGESTS THAT THE PATH OF OIL PRICES REMAINS TO BE PLOTTED; THERE IS GREAT SKEPTICISM THAT A TWO-TIER SYSTEM CAN LONG SURVIVE. DESPITE THESE UNCERTAINTIES, THE INITIAL REACTION TO THE DOHA OPEC MEETING WAS ONE OF SOME RELIEF, WITH THE TIMES AND THE FINANCIAL TIMES SUGGESTING THAT THE INCREASE IN THE OIL IMPORT BILL WOULD BE IN THE \$400-500 MILLION RANGE AND THE TIMES PREDICTING A RESULTANT INCREASE IN THE RETAIL PRICE INDEX OF ABOUT 0.5 PERCENT.

2. THE WEEKEND PRESS FEATURES ARTICLES ABOUT LAST WEEK'S BUDGET WITHOUT ADDING ANYTHING NEW EXCEPT THAT THE CABINET BALKED AT THE LAST MINUTE AT PROPOSED REDUCTIONS IN PENSIONS, SOCIAL BENEFITS, AND OTHER TRANSFER PAYMENTS. THERE ARE ALSO ARTICLES CONTINUING TO

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NOTE THE BIS, WP-3 AND G-10 SESSIONS IN PARIS ON MONDAY, TUESDAY AND WEDNESDAY OF THIS WEEK.

3. MONEY SUPPLY: REFLECTING HEAVY SALES OF GOVERNMENT SECURITIES DURING THE PERIOD, MONEY SUPPLY (M1 AND M3) GROWTH EASED CONSIDERABLY IN NOVEMBER. M1 ROSE BY 1.1

PERCENT AND M3 BY 0.4 PERCENT, THEREBY REDUCING THE ANNUALIZED RATE OF GROWTH OF THE TWO AGGREGATES DURING THE LATEST THREE MONTHS TO 7.0 AND 16.8 PERCENT, RESPECTIVELY. THE 16.8 PERCENT M3 FIGURE REPRESENTS A SUBSTANTIAL DROP FROM THE 23.0 PERCENT RATE IN OCTOBER. ATTENTION IS SHIFTING AWAY FROM MONEY SUPPLY, PER SE, AND TOWARD DOMESTIC CREDIT EXPANSION (DCE), IN THE WAKE OF THE HMF-IMF AGREEMENT. THE NOVEMBER FIGURES PROVIDE A BASIS FOR ESTIMATING DCE FOR THE FIRST 7 MONTHS OF THE BANKING YEAR (APRIL - APRIL) AT 5.9 BILLION POUNDS LEAVING 3.1 BILLION IN ALLOWABLE DCE GROWTH IN THE REMAINING 5 MONTHS UNDER THE TERMS OF HMG'S LETTER OF INTENT. MEETING THIS 9.0 BILLION POUND TARGET WILL CONSTRAIN THE GROWTH OF M3 TO AN ANNUAL RATE OF ABOUT 6 PERCENT OVER THAT PERIOD, A VERY SEVERE GOAL WHEN COMPARED WITH THE 16 PERCENT ANNUAL RATE AT WHICH M3 HAS GROWN TO DATE THIS BANKING YEAR.

4. RETAIL PRICES: THE RETAIL PRICE INDEX ROSE 1.4 PERCENT IN NOVEMBER, INCREASING THE ANNUAL RATE OF INFLATION FROM 14.7 TO 15.0 PERCENT. THE INCREASE WAS ATTRIBUTED TO HIGHER FOOD PRICES AND ALSO REFLECTS, IN PART, THE DEPRECIATION OF STERLING LAST SPRING.

5. FOREIGN EXCHANGE AND FINANCE: OPEC PRICE DISHARMONY LIFTED THE FINANCIAL MARKETS ON FRIDAY. THE POUND CLOSED AT \$1.6710, A GAIN OF 85 POINTS ON THE DAY. ITS TRADE WEIGHTED DEPRECIATION NARROWED TO 44.9 FROM 45.2 PERCENT. IT OPENED TODAY AT \$1.6760. IN THE GILT MARKET GAINS OF 1/4 POINTS WERE COMMON IN THE SHORTS

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WHILE MANY LONGS REGISTERED GAINS OF 1/8 POINTS. EQUITIES PROVED BUOYANT AS THE FINANCIAL TIMES INDEX OF 30 ORDINARY INDUSTRIALS CLOSED UP 16 POINTS AT 339.5.

AS HAD BEEN WIDELY ANTICIPATED THE MINIMUM LENDING RATE FELL 1/4 PERCENTAGE POINTS TO 14-1/2 PERCENT AT FRIDAY'S TREASURY BILL AUCTION. THE TREASURY BILL RATE FELL 0.2486 PERCENT TO 13.7568 PERCENT AS 1304.29 MILLION POUNDS IN BIDS WERE RECEIVED FOR THE 300 MILLION POUNDS TENDERED.

SPIERS

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